

Message Text

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ACTION EA-14

INFO OCT-01 NEA-10 ISO-00 CIAE-00 DODE-00 PM-07 H-03

INR-10 L-03 NSAE-00 NSC-10 PA-04 RSC-01 PRS-01 SPC-03

SS-20 USIA-15 ACDA-19 IO-14 EB-11 COME-00 INT-08

SCEM-02 SCI-06 TRSE-00 OMB-01 DRC-01 AID-20 /184 W
----- 013273

R 020930Z NOV 73

FM AMEMBASSY BANGKOK

TO SECSTATE WASHDC 7962

INFO AMEMBASSY JAKARTA

AMEMBASSY JIDDA

AMEMBASSY KUWAIT

AMEMBASSY TEHRAN

C O N F I D E N T I A L BANGKOK 17131

E.O. 11652: GDS

TAGS: ENRG

SUBJECT: PETROLEUM: CRUDE OIL PRICE RISE HITS THAILAND HARD

REF: BANGKOK 16727

1. SUMMARY. PETROLEUM INDUSTRY SOURCES TOLD EMBOFF THAT RECENTLY COMPLETED NEGOTIATIONS WITH ORGANIZATION OF PETROLEIUM EXPORTING COUNTRIES (OPEC) WILL CAUSE PRICE RISE OF 70 PER CENT FOR IMPORTED CRUDE. THAILAND'S THREE OIL REFINERIES ARE ALREADY PAYING HIGH PRICES FOR CRUDE BECAUSE OF TIGHT WORLD CRUDE MARKET THAT EXISTED EVEN BEFORE RECENT NEGOTIATIONS WITH OPEC. HIGHER CRUDE PRICES WILL BRING HARD-TO-RESIST PRESSURE ON RTG TO PERMIT INCREASE IN GOVERNMENT FIXED PRICES OF PETROLEIUM PRODUCTS IN THAILAND, AND THUS ADD TO ALREADY CONSIDERABLE INFLATIONARY PRESSURES. CALUCULATIONS BASED ON PROSPECTIVE INCREASED COSTS AND WITHOUT REGARD TO POSSIBLE OFF-SETTING MEASURES, SUGGEST THAT THAILAND MAY HAVE TO PAY TWICE AS MUCH FOR OIL IMPORTS IN 1974, OR \$300 MILLION, AS IT DID IN 1972.
END SUMMARY.

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2. TWO INDUSTRY SOURCES TOLD EMBOFF THAT ANTICIPATED PERCENTAGE

RISE IN MIDDLE EAST CRUDE PRICE AS RESULT OF RECENT NEGOTIATIONS WITH ORGANIZATION OF PETROLEIUM EXPORTING COUNTRIES (OPEC) IS CLOSER TO 70 PERCENT RATHER THAN 17 PERCENT RISE REPORTED IN THAI PRESS WHICH HAS REPORTED PER BARREL INCREASE FOR CRUDE WILL RANGE FROM \$1.24 TO \$1.35, DEPENDING ON QUALITY. HOWEVER, INDUSTRY SOURCES SAID REAL PRICE RISE IS HIDDEN IN OPEC'S DEMAND FOR INCREASE IN "POSTED PRICE" FOR CRUDE, I.E., THE PRICE ON WHICH TAXES AND ROYALTIES TO OPEC IS PAID. MAJOR OIL COMPANY REPS IN BANGKOK CERTAIN THAT RISE IN "POSTED PRICE" WILL CAUSE RISE IN "REALIZED PRICE," E.E., CRUDE OIL SELLING PRICE, OF AT LEAST 70 PERCENT. MOREOVER, CUTBACKS IN MIDDLE EAST OIL PRODUCTION CERTAIN TO CAUSE CONTINUING UPWARD PRESSURE ON CRUDE PRICE WITH RESULT THAT \$9/BBL FOR CRUDE WELL BEFORE 1978 IS REGARDED AS LIKELY POSSIBILITY.

3. THAILAND'S THREE OIL REFINERIES WHICH IMPORT ALL THEIR CRUDE, MOST OF IT FROM THE MIDDLE EAST, HAVE ALREADY BEEN PAYING PREMIUM PRICES FOR CRUDE. TIGHT CRUDE MARKET THAT PREVAILED EVEN BEFORE RECENTLY COMPLETED OPEC OIL COMPANY NEGOTIATIONS RESULTED IN APPROX \$.65/BBL HIKE IN "REALIZED PRICE" TO CRUDE SUPPLIERS. SINCE RTG LAST PERMITTED CONTROLLED THAI PETROLEIUM PRICES TO RISE IN JULY 1973 THAILAND'S REFINERIES HAVE, IN EFFECT, BEEN ABSORBING FROM THEIR PROFIT MARGINS THIS RECENT INCREASE IN CRUDE PRICE.

4. AS A RESULT, EVEN BEFORE OPEC NEGOTIATIONS CAUSED SHARPLY HIGHER CRUDE PRICES TO THAILAND'S REFINERIES, ALL THREE REFINERIES HAD ALREADY PLANNED TO APPROACH RTG IN JANUARY 1974 FOR PERMISSION TO RAISE INTERNAL PETROLEIUM PRICE. THIS TIME TABLE NOW ACCELERATED. SUMMIT PETROLEIUM, ACCORDING TO INDUSTRY SOURCES, HAS ALREADY PRESENTED RTG WITH ULTIMATUM TO PERMIT PRICE RISE OR BE FACED WITH RENEGING ON MANAGEMENT CONTRACT FOR OPERATION OF RTG OWNED BANCHAK REFINERY, AND DEMAND FOR COMPENSATION FOR SUMMIT FINANCED IMPROVEMENTS TO REFINERY.

5. THAILAND OIL REFINERY CORPORATION (TORC) AND ESSO REFINERIES WILL ALSO DEMAND APPROVAL OF PRICE RISE FROM RTG. DURING PERIOD BEFORE LAST PRICE RISE IN JULY, TORC REPORTEDLY WAS LOSING \$700,000 PER MONTH FROM REFINERY OPERATIONS. AT THAT TIME TORC TOLD RTG, WHICH SEEMED RELUCTANT TO GRANT PRICE RISE, IT WOULD CLOSE IN FEW MONTHS IF LOSSES CONTINUED AT THAT LEVEL. HOWEVER, PRICE INCREASE ALLEVIATED SITUATION AND TORC OWNER TOLD EMBASSY OFFICER THAT HE WAS CONFIDENTIAL

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SATISFIED EVEN THOUGH HIS PROFIT MARGIN WAS VERY NARROW.

6. THAILAND'S DEPENDENCY ON IMPORTED DIESEL IS YET ANOTHER FACTOR THAT WILL MAKE IT MORE DIFFICULT FOR RTG TO AVOID A PRICE RISE IN PETROLEIUM PRODUCTS. OIL COMPANIES ARE IN POSITION TO CUT OFF THIS SOURCE EASILY BECAUSE THAILAND CONSUMES MORE DIESEL FUEL THAN ITS REFINERIES CAN PRODUCE.

7. RTG CAN MINIMIZE PERCENTAGE RISE IN CRUDE PRICE THAT MUST BE PASSED ON TO THAI CONSUMER BY INDUCING OIL COMPANIES TO ACCEPT DECREASED PROFIT MARGINS OR BY SECURING CRUDE FROM OTHER SUPPLIERS, I.E., IRAN OR INDONESIA, IF THEIR PRICE IS LOWER AND THE OIL IS AVAILABLE. HOWEVER, THAILAND BARGAINING POSITION IS WEAK VIS-A-VIS OIL COMPANIES AND PRODUCER COUNTRIES BECAUSE OF WORLD WIDE SELLER'S MARKET THAT PREVAILS. IN ADDITION, ANY SHIFT IN CRUDE "MIX" TOWARD LOW SULFUR CONTENT INDONESIAN CRUDE WOULD BE LIMITED BY TECHNICAL FEATURES OF EXISTING REFINERIES.

8. THAILAND IN 1972 SPENT APPROXIMATELY \$150 MILLION IN FOREIGN EXCHANGE ON PETROLEIUM PRODUCTS. CONSUPTION OF PETROLEIUM IS GROWING AT MORE THAN 15 PERCENT PER YEAR. IN ADDITION, TO DEGREE WORLD CRUDE MARKET ACCEPTS OPEC COUNTRIES PRICE LEAD, THEREBY TENDING TOWARDS WORLD-WIDE 70 PERCENT RISE FOR CRUDE, THAILAND WILL BE FACED WITH UNAVOIDABLE INCREASED DRAIN OF ALMOST TWICE HER PRESENT LEVEL OF FOREIGN EXCHANGE EXPENDITURES FOR PETROLIUM PRODUCTS, OR AT LEAST \$300 MILLION PER YEAR BY 1974. VIRTUAL CERTAINTY, THEREFORE, THAT RTG MUST AGREE TO AND PASS ON TO CONSUMER ALL OR MAJOR PART OF PROSPECTIVE PRICE INCREASE, WITH CONSEQUENCE OF FURTHER INCREASE IN DOMSSTIC INFLATIONARY PRESSURES. COMPANIES AND RTG WILL PROBABLY AGREE, HOWEVER, NOT TO HIT CONSUMERS WITH WHOLE WEIGHT OF PRICE RISE IMMEDIATELY. CAREFULLY SPACED INCREASES SEEM MORE LIKELY.
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Message Attributes

Automatic Decaptioning: X
Capture Date: 01 JAN 1994
Channel Indicators: n/a
Current Classification: UNCLASSIFIED
Concepts: n/a
Control Number: n/a
Copy: SINGLE
Draft Date: 02 NOV 1973
Decaption Date: 01 JAN 1960
Decaption Note:
Disposition Action: RELEASED
Disposition Approved on Date:
Disposition Authority: collinp0
Disposition Case Number: n/a
Disposition Comment: 25 YEAR REVIEW
Disposition Date: 28 MAY 2004
Disposition Event:
Disposition History: n/a
Disposition Reason:
Disposition Remarks:
Document Number: 1973BANGKO17131
Document Source: CORE
Document Unique ID: 00
Drafter: n/a
Enclosure: n/a
Executive Order: GS
Errors: N/A
Film Number: n/a
From: BANGKOK
Handling Restrictions: n/a
Image Path:
ISecure: 1
Legacy Key: link1973/newtext/t19731159/aaaabrpa.tel
Line Count: 140
Locator: TEXT ON-LINE
Office: ACTION EA
Original Classification: CONFIDENTIAL
Original Handling Restrictions: n/a
Original Previous Classification: n/a
Original Previous Handling Restrictions: n/a
Page Count: 3
Previous Channel Indicators:
Previous Classification: CONFIDENTIAL
Previous Handling Restrictions: n/a
Reference: BANGKOK 16727
Review Action: RELEASED, APPROVED
Review Authority: collinp0
Review Comment: n/a
Review Content Flags:
Review Date: 21 NOV 2001
Review Event:
Review Exemptions: n/a
Review History: RELEASED <21-Nov-2001 by martinml>; APPROVED <05 MAR 2002 by collinp0>
Review Markings:

Declassified/Released
US Department of State
EO Systematic Review
30 JUN 2005

Review Media Identifier:
Review Referrals: n/a
Review Release Date: n/a
Review Release Event: n/a
Review Transfer Date:
Review Withdrawn Fields: n/a
Secure: OPEN
Status: NATIVE
Subject: PETROLEUM: CRUDE OIL PRICE RISE HITS THAILAND HARD
TAGS: ENRG
To: STATE
Type: TE
Markings: Declassified/Released US Department of State EO Systematic Review 30 JUN 2005